

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1115-03  
Bill No.: HB 423  
Subject: Tax Credits; Economic Development; Property, Real and Personal; Economic Development Department  
Type: Original  
Date: February 8, 2013

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Bill Summary: This proposal changes provisions of the Distressed Areas Land Assemblage Tax Credit Act.

**FISCAL SUMMARY**

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	\$0	\$0 to (\$30,000,000)	\$0 to (\$30,000,000)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>\$0 to (\$30,000,000)</b>	<b>\$0 to (\$30,000,000)</b>

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**Note:** The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials at the **Office of Administration - Budget and Planning (BAP)** assume this proposal modifies the Distressed Areas Land Assemblage tax credit. There is a \$30 million annual cap and a new \$95 million aggregate for the period of 8/28/13 through 8/28/2019, therefore General and Total State Revenues could be lowered. This program may encourage other economic activity, but BAP does not have data to estimate the induced revenues.

Officials at the **Department of Economic Development (DED)** assume this proposal revises the Distressed Areas Land Assemblage Tax Credit Act under Section 99.1205 which is administered by DED's Division of Business and Community Services. The proposal revises several program definitions, the process and procedures for issuance of tax credits, and increases the annual cap of tax credits from \$20 million to \$30 million. The language is revised so that tax credits approved prior to August 28, 2013 would not count against the \$95 million aggregate cap. The sunset date is extended from August 28, 2013, to August 28, 2019. The proposal may increase the tax credit issuance for the program; therefore, DED assumes an unknown negative impact over \$100,000 as a result of the proposal.

According to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Distressed Areas Land Assemblage tax credit program had the following activity;

	FY 2010	FY 2011	FY 2012
Certificates Issued (#)	3	1	2
Projects (#)	1	1	1
Amount Issued	\$20,000,000	\$7,980,875	\$3,269,623
Amount Redeemed	\$6,731,635	\$13,534,347	\$7,558,203

**Oversight** assumes this tax credit was to sunset on August 28, 2013 (FY 2014). This proposal extends the tax credit; therefore, **Oversight** will show a loss to state revenue for the credits issued in FY 2015 and FY 2016. This proposal establishes a \$30 million annual cap. **Oversight** will reflect a loss of revenue to the State as \$0 to the annual cap.

Officials at the **Department of Revenue** assume there is no fiscal impact from this proposal.

ASSUMPTION (continued)

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state it is unknown how many insurance companies will choose to participate in this program and take advantage of the Distressed Areas Land Assemblage Tax Credit. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

**Oversight** assumes the changes to an existing program in this proposal would have a positive impact on the state. However, Oversight considers this to be indirect impact of the proposal and will not reflect it in the fiscal note.

<u>FISCAL IMPACT - State Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
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**GENERAL REVENUE**

<u>Revenue Reduction</u> - extension of the distressed areas land assemblage credit	\$0	\$0 to (\$30,000,000)	\$0 to (\$30,000,000)
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<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b>\$0</b>	<b>\$0 to (\$30,000,000)</b>	<b>\$0 to (\$30,000,000)</b>
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**Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.**

<u>FISCAL IMPACT - Local Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that qualify for the tax credit could be impacted.

JH:LR:OD

### FISCAL DESCRIPTION

This proposal changes the laws regarding the Distressed Areas Land Assemblage Tax Credit. The proposal revises the definition of "acquisition costs" to include engineering, surveying, title insurance, and architectural and design costs incurred in connection with the acquisition, financing, parcel consolidation or site and redevelopment area planning of eligible parcels. Acquisition costs include maintenance costs for 12 years instead of five years.

The annual amount of tax credits issued is increased from \$20 million to \$30 million, and the aggregate program cap authorized after August 28, 2013 is \$95 million. The proposal establishes a process for allocating the annual \$30 million in tax credits depending upon the number of eligible applicants. No single applicant can receive more than 50% of the annual \$30 million tax credits.

The provisions of the bill will expire six years after the effective date.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

### SOURCES OF INFORMATION

Department of Economic Development  
Department of Insurance, Financial Institutions and Professional Registration  
Department of Revenue  
Office of Administration  
Budget and Planning



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Acting Director  
February 8, 2013